



OXFORD ANALYTICA

CHILE

FISCAL TRANSPARENCY

Country Report 2005

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Oxford OX1 4EH

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CHILE



COMPLIANCE RATINGS

<i>Fiscal transparency</i>	<i>2005</i>	<i>2004</i>	<i>2003</i>	<i>2002</i>
Clarity of roles	••••	••••	••••	••••
Availability of information	••••	••••	••••	•••
Budget preparation	•••••	•••••	••••	•••
Accountability	••••	••••	••••	••••
Score	4.25	4.25	4.00	3.50

OUTLOOK & COMMENTARY

The December 2005 presidential and congressional elections have dominated the political scene in the past six months. Irrespective of the outcome of the elections, Chile is likely to further increase standards in fiscal policy transparency in the near future. The next government may seek to modify the structural fiscal surplus rule -- which does not have the status of law -- either by reducing it or establishing a structural balance framework. However, it will almost certainly maintain the principle of tailoring fiscal spending to the economy's medium-term growth potential.

The bill on fiscal responsibility, recently submitted to Congress for debate, could enhance management procedures. Additionally, a proposal to improve the internal audit process within government departments is currently being debated by Congress. Both initiatives could introduce further transparency to the country's fiscal operations. Greater accountability and better governance structure for public enterprises have emerged as important issues on the political agenda; changes to the current legal framework are expected in the near future.

EXECUTIVE SUMMARY

4.25 Compliance in progress

Chilean fiscal data are generally perceived to be of good quality, timely and adequate for surveillance purposes. Even when the National Budget Office (DIPRES) already fulfils the legal requirements for publishing fiscal information, it aims to continue improving the timely disclosure of information.

The structural balance rule, a policy commitment of the current administration which is not mandated by legislation but calls for a 1% surplus of GDP in the central government's fiscal accounts, has been successfully applied since first introduced in 2001. While there is consensus that the rule has been crucial in underpinning Chile's macroeconomic stability, there is also widespread agreement that a modification of the size of surplus would not damage macroeconomic management and market confidence.

Chile has a well-developed budget system and the amount of information publicly available continues to improve on already high standards. The budget is developed and implemented according to a well-defined timetable and process. Fiscal information is disseminated in compliance with the IMF's Government Finance Statistics Manual 2001, and the first stage of the migration process to comply with its standards is now completed. The government has been carefully supervising the transition period towards a fully operational accrual-based accounting system in order to remedy any shortcomings that may appear until the system becomes fully operational in 2006.

Chile complies with the IMF Special Data Dissemination Standard (SDDS) and disseminates a comprehensive range of fiscal data. The Public Finance Report -- consolidated as a relevant tool to present fiscal information and analysis -- includes information on financial assets, government debt, contingent liabilities and tax expenditures. Information on municipalities and on extra-budgetary transactions has been increased in the past twelve months. An important gap in Chile's fiscal statistics is the omission of some military activity from budget documentation.

The State Information System of Financial Management engaged approximately 95% of government departments and is expected to become fully operational in 2006, allowing daily electronic reporting of fiscal disbursements and budget execution. The budget is prepared following an increasingly consolidated methodology of budget-performance. Government propositions to distribute public funds take into account programme evaluations, and public services performance indicators. The use of performance indicators has been strengthened in the past year and the evaluation of government programmes has increased, allowing for a more efficient resource allocation.

The Office of the Comptroller General (CGR) carries out an independent audit of the public sector's fiscal management and budget execution but annual financial statements could be improved, moving to closer adherence with international standards in reporting. Internal audit processes within government departments are being improved. In addition, the role of Congress in budgetary monitoring remains underdeveloped. The governance of public enterprises is at the forefront of public scrutiny due to reported shortcomings in their management.

Chile's overall score is unchanged from last year.

1. CLARITY OF ROLES, RESPONSIBILITIES AND OBJECTIVES



Compliance in progress

The government sector should be distinguished from the rest of the public sector and from the rest of the economy, and policy and management roles within the public sector should be clear and publicly disclosed.

Structure, functions and responsibilities of government

The 1980 Political Constitution (as amended in 2005), the 1986 Organic Constitutional Law of General Principles for Administration of the State (LOCBGAE), and Organic Decree Law 1,263 of the Financial Management of the State (LAFE) set out the structure of Chile's public sector and government.¹ The distribution of functions among the different levels of government and intergovernmental fiscal relations are clearly defined. Chile is a unitary decentralised republic consisting of 13 regional governments, with clear separation of executive, legislative and judicial powers. Chile also has a number of autonomous and independent public institutions, such as the Central Bank of Chile (BCC), the Office of the Comptroller General (CGR), the Attorney General, and the Superintendence of Banks and Financial Institutions (SBIF).

The Budget Law covers all institutions that are normally included in the IMF's Government Finance Statistics (GFS) definition of central government. Fiscal information is disseminated in compliance with GFS 2001, and the first stage of its migration to this methodology is now completed. All the information about flows follows an accrual-based system, although it still needs adjustment to some balances. The next stage of implementation is currently under way, with progress in the elaboration of the *Statement of Government Operations* (SGO), the criteria to register and value financial and non-financial assets in order to build the opening and closing balance sheet, the statement of other economic flows and the consumption of fixed capital in the SGO.

The relationship between regional bodies and the national government is also clearly defined in the constitution. Each regional government is formed by a number of provinces that, in turn, comprise diverse municipalities. The Budget Law also includes the regions' budgets, which are classified as part of the decentralised government in the LOCBGAE. The municipalities -- being managerially and financially autonomous -- are not incorporated into the Budget Law, but their budgetary procedures adhere to the LAFE principles. Municipal governments may not issue debt without authorisation from the Ministry of Finance.

The Organic Law of the Regional Councils of 1987 (amended in 1992) and the Organic Law of the Municipalities of 1993 determine taxation powers for each level of government. The government is preparing a proposal to redesign the *Municipal Common Fund* -- which redistributes municipal tax revenues from the wealthiest to those with lower revenue-generating capacity -- based on efficiency criteria.² Reform proposals for regional taxes (*impuestos territoriales*) are still being discussed in Congress.

Coordination and management of budgetary activities

The LAFE contains principles and guidelines for budget management in Chile. This Law establishes the principle of unified budgeting, and requires all incomes to be included in institutions' budgets on a gross basis. The Ministry of Finance sets up the budgetary and financial schedule, and the National Budget Office (DIPRES) is in charge of drafting the Budget Bill and carrying out budget implementation.³ Although formally reporting to the Minister of

Finance, the budget director is appointed directly by the president, who may dismiss him at any time. The DIPRES also presents general government statistics in its *Public Finance Statistics* yearbook, which are compatible with GFS except that they exclude universities and research institutes, whose budgets are not approved by Congress. The CGR is responsible for the supervision and accounting of the budget execution, in addition to its auditing duties on public funds. Grants and external loans to public institutions have to be approved by the Ministry of Finance. Credits to central government entities are subject to a global debt limit set in the annual budget law.

The undisclosed Law 13,196 of 1958 (as amended in 1985) -- known as the *Reserved Law of Copper* -- authorises the automatic transfer of 10% of sales made by CODELCO (the state's copper holding corporation) to military procurement.⁴ However, Law 19,863 of February 2003 authorises the publication of revenues and expenditures related to the Copper Law, and these have become publicly available through CODELCO's balance sheets and the Ministry of Finance. In addition, fiscal revenues publicly available now include the gross revenues of CODELCO. This item continues to represent the only significant extra-budgetary activity in the country, but commentators highlighted the progress attained by its operations in the past years.⁵

There are a few 'above the line' government operations, including the *Copper Revenue Compensation Fund*, the *Oil Compensation Fund*, and the *Infrastructure Compensation Fund*. During the past year the government has increased the provision of information on extra-budgetary transactions dating from 1987 onwards. The *Public Finance Report* and the latest *Public Finance Statistics* yearbook published in July this year include information on these items. The information is presented following the GFS Manual 2001 guidelines, both separately and consolidated with the information for the budgetary accounts of the central government. As a result of these changes, fiscal statistics now show more clearly the evolution of the flows into and out of the copper and oil funds.⁶ Budgetary reallocations do not represent a concern for the regular functioning of Chilean public finances. However, the DIPRES emphasises the need to reinforce within government departments the importance of compliance with existent objectives, and absorb -- with already allocated resources -- the change of priorities and sector contingencies.⁷

Relations between government and public sector agencies

The Central Bank of Chile (BCC) is independent from the government, as established in the constitution and the BCC's Organic Law. It may not perform lending operations to the government, except in a state of emergency. Moreover, the BCC cannot engage in transactions with the non-financial private sector. Following the mid-1980s banking crisis, the central bank purchased a substantial amount of public debt and banking assets, which have led it to incur losses amounting to approximately 1% of GDP. The BCC and the Ministry of Finance have been arranging a change in the debt's denomination to reduce currency mismatches, and substantial prepayments of this liability have been performed during 2005 owing to the large fiscal surplus attained and the government's commitment to meet the 2014 deadline to cancel the debt.

The regulatory framework for the financial system is based on internationally accepted criteria. The Superintendence of Banks and Financial Institutions (SBIF) is independent and has administrative autonomy⁸, with the constitution and the General Law of Banks regulating it.⁹ Chile's president appoints the SBIF's executive director. The SBIF authorises the creation of new banks and has wide powers to interpret and enforce regulations. A number of corruption scandals in the financial sector have shown the need to improve coordination and information among different regulatory bodies. A stronger coordination of the supervisors of pension funds, banks and capital markets would be desirable owing to the size of the Chilean market and the intertwined relations between the largest banks, pension funds, and stock market participants.¹⁰

Government involvement in the private sector

The government's commercial and non-commercial activities have separate budget processes and are covered by different legal procedures. A qualified majority in Congress is required to create new public enterprises or expand

their activity. Commercial activities are often subject to oversight and control like any other private institution, adhering to commercial law and regulations governing private enterprises. The government disseminates the activities, balance sheets, and financial statement of its enterprises. Information on quasi-fiscal operations of public enterprises is publicly available in the budgetary documentation.

There are two types of state-owned enterprises, depending on the level of government ownership. The *Production Development Corporation* (CORFO, established in 1939) is the vehicle through which the government invests and has equity holdings in different industries -- such as health institutions, service providers, the national lottery, and coal industry. These companies, subject to the same supervision guidelines as for private firms, are managed by the holding *System of Public Enterprises* (SEP) and have to issue financial reports to the public once a year.¹¹ The budget law requires the executive to release semi-annual financial reports to Congress for these firms. The SEP was created in June 2001, replacing the *Enterprise Management System* (SAE). Quasi-fiscal operations undertaken by CORFO enterprises are funded with government transfers registered in the Budget Law.

Additionally, the government has majority ownership in enterprises like CODELCO and others that are left out of the SEP scheme. These enterprises follow their own budgetary procedures, not necessarily following the LAFE guidelines, but are subject to the Ministry of Finance's approval. Similarly, budgets for public universities are not governed by the LAFE and are not included in the annual budget law.

Some commentators have suggested that the information on public enterprises is scarce and there is widespread belief that their funds could have been used in the past for election campaigns.¹² In the past year, the governance of public enterprises -- especially CODELCO¹³ -- has been at the forefront of public scrutiny because of the reported shortcomings in management, which demonstrated the broad powers that administrators of these enterprises have. As a consequence, the government has focused on the corporate governance section of the Capital Markets II draft law, which has now emerged as an autonomous project and a key priority to address.¹⁴ At the time of writing, discussions were underway regarding the new governance structure that public enterprises will have, including the future participation of ministers as members of their boards.¹⁵ Proposals include granting more power to the SEP and the National Civil Service Directorate in the selection of directors. Commentators disagree on whether the bill will be passed before the end of the current administration in March 2006 or once the new government take office.

In August this year, CODELCO established a procurement registry in order to disclose a list of companies in position to work with the copper state enterprise. Procurement contracts will be granted only to companies previously registered.

There are a few public financial institutions, Banco del Estado being the most important. These institutions are regulated by the BCC and supervised by the SBIF. Banco del Estado has a market share of around 12% and performs quasi-fiscal activities. The bank is not covered by the LAFE, nor included in the budget law. In recent years, Banco del Estado has been increasingly operating as a regular commercial bank. The bank has a politically driven development role, but this is carried out within reasonable economic parameters.

There should be a clear legal and administrative framework for fiscal management

Legal framework for budgetary activities

The constitution tasks the executive, through the Ministry of Finance, to present a Budget Bill to Congress, which only has the power to reduce or eliminate expenses. If Congress has not held a vote on the budget within 60 days after submission by the president, the draft automatically comes into force. Congress discusses the budget in a special joint commission, whose report goes to the Chamber of Deputies and Senate for approval. The LAFE centralises the fiscal process in the Ministry of Finance, which gathers budgets of other ministries, agencies, and

regional governments to assemble the bill. Moreover, the LAFE also regulates accounting, the management of funds, financial control, and public credit.

The approved Budget Law therefore includes all government revenues and expenses other than the exceptions described above. The law is introduced together with a financial statement that considers the previous year's budgetary execution, and also the new financial requirements necessary to meet both the annual fiscal targets and the medium- term financial plans.

In September 2003, Congress passed Law 19,896 giving permanent legal status to different regulations that were previously included in each year's budget law. This law also establishes the obligation to publish annually a *Public Finance Report* (PFR).¹⁶ The law includes a number of legal contents that the PFR must have, unifying in one core document previously fragmented information. The first report published under this law was released in October 2003. The PFR has consolidated as a relevant tool to present fiscal information, together with relevant explanations for the legal framework and methodological changes, increasing the transparency of the budgetary process.

The Ministry of Finance has broad powers to meet fiscal targets, including the authority to overview and authorise any actions that would require future disbursements. It also has capacities to reduce budgeted government spending, and propose extra budgetary increases that require congressional approval (except for economic emergency situations). Some commentators have expressed concerns about the broad powers that the executive has in the budgetary process.¹⁷

In September 2005, the government submitted to Congress a bill on fiscal responsibility, aiming at completing the legal redesign of fiscal transparency practices introduced in 2003. The key components of the proposal include:

- 1) the obligation to calculate the structural surplus;
- 2) the obligation of a government to define the fiscal parameters of the administration within 90 days of taking office, and to inform to Congress of any changes that could occur;
- 3) the creation of a reserve fund for future pension liabilities;
- 4) introducing the Unemployment Contingency Programme as a permanent budget item;
- 5) reorganising the *Copper Revenue Compensation Fund*, which is operating on rules designed in 1986; and
- 6) increasing public availability of information on the armed forces, including periodic data on capital flows and debt from the *Reserved Law of Copper*.

Legal framework for taxation

Taxes are determined by law and provide no discretionary powers to the government. The Internal Tax Service (SII) is responsible for the general management of taxes, while the National Customs Service (SNA) is responsible for tariffs and other foreign trade duties. The treasury is responsible for managing the tax revenue process. A permanent commission has been established to coordinate their activities, chaired by the head of the SII. Both the SII and the SNA have procedures to challenge tax decisions, and are legally protected from political influence. Tax laws are relatively simple and the SII and the SNA websites provide information about the tax code and tax dispute procedures. Commentators have welcomed analyses of tax expenditures prepared by the SII as a sign of improved transparency within the system, and have praised the SII's technical capabilities. Moreover, tax payments can be made via the Internet, and coverage of electronic filing for income taxes reached 96% during 2005. The customs service is developing a project to permit full Internet tracking of imports through to clearance.

Chile's Tax Code contains clear provisions regarding taxpayers' legal rights and arbitration procedures. The proposal to make first-round tribunals independent of the tax agencies and to create chambers with independent tax expertise within the Court of Appeals has little prospects of being passed in Congress in the near future.

Ethical standards for public servants

The 1989 Administrative Statute of Law 18,834 sets supervisory controls and conduct conventions for all public sector employees. The Administrative Statute also establishes principles of probity and confidentiality in legally restricted affairs, and prompts reporting of any knowledge of irregularities. Complementary legislation for government staff's code of conduct is set by the *Administrative Probity Statute* established in Law 18,575 (of 1986) and Law 19,653 (of 1999).

2. PUBLIC AVAILABILITY OF INFORMATION

●●●● Compliance in progress

The public should be provided with full information on the past, current and projected fiscal activity of government.

Chile has efficient budgeting procedures, and the public has access to comprehensive and timely fiscal reports. The annual *Public Finance Report* (PFR) is considered a substantial advance for public availability of information. Regular information reported in the PFR includes data on fiscal policy, government statistics, projections of the structural balance, and performance criteria for budgetary programmes.¹⁸ Information on tax expenditures is also reported in the publication.

The *Report on the State of the Public Finances* and the PFR are included in the Budget Bill, and provide detailed disclosure of the previous four years' fiscal activity, a three-year forward financial plan, the structural surplus targets, and the assumptions and guidelines used to make the projections. The Budget Bill itself includes an analysis of general macroeconomic conditions to explain the assumptions and guidelines used to estimate government revenues and expenses. The *Public Finance Statistics* yearbook includes consolidated figures for central government, general government, public debt, and the non-financial public sector for the previous ten years. The latest version of this report, released in July this year, has substantially improved the amount and quality of information provided and has been praised by commentators as a useful tool to review and assess financial statistics.¹⁹

The DIPRES website has an online system that analyses the budgetary impact of legislative government projects within a four-year framework.

Central government operations

The DIPRES submits to Congress -- and publishes on its website -- monthly, quarterly, biannual, and annual reports on budget execution, and audited annual balances and quarterly financial statements of public companies. The DIPRES reports central government operations on a quarterly and annual basis. The results of quarterly budget-execution reports are compared with the relevant Budget Law and with previous years' performance. Annual reporting not only includes the year's budget accounts, but also the functional execution of the budget. Execution of central government agencies (at a programme level) is published quarterly, and monthly information is also available.

Despite Chile's progress in enhancing fiscal transparency, there is still a need to clarify and disseminate information on some other areas. Budget documentation does not provide detailed information on resources under the *Reserved Law of Copper* and the "reserved spending". The latter is a reserved expenditure line for some ministries, mainly security-related, which is reported but not itemised. Law 19,863, passed in 2003 and the first law in seventy years to regulate the government's use of discretionary funds, has increased the transparency of this spending, decreasing the amount, limiting the purposes such funds can be used for and making them accountable to the CGR. Reserved expenditure has been decreasing in the past years, representing 0.02% of total expenditure in 2004 -- down from 8.1% in 1980. This figure is likely to be maintained for the current fiscal year, and government departments using part of this spending are limited to the Office of the Presidency, the Ministry of Home Affairs, the Ministry of Defence, and the Ministry of Foreign Affairs.

Under the *Reserved Law of Copper*, CODELCO must transfer 10% of its export returns directly to the armed forces. The Law guarantees a minimum level for this transfer (approximately 75 million US dollars for each of the three branches of the military) and if copper prices are at a low level, the government has to make up the difference out of the fiscal budget. This year, due to high international copper prices, the government has introduced a *de facto* limit on spending of these transfers, which coincides with the minimum guaranteed by law. Spending above this amount requires authorisation from the Ministry of Finance and part of the additional amount will be used to form a stabilisation fund for future military acquisitions.²⁰ This procedure will be used for as long as copper prices remain high and will narrow the scope of the broad fiscal powers in conducting military fiscal operations.²¹

An important gap in Chile's fiscal statistics is the omission of some military activity from budget documentation.²² Since 2002, however, the government reports the transfer of 10% of CODELCO's sales to the armed forces. Additionally, further progress has been made recently, and aggregate information on military spending is released every three months. In addition, the publication during 2004 of the military spending for the 1987-2003 period, together with availability of records of consolidated spending information, has been praised as an important step towards full disclosure of military accounts.²³ Information on military spending has increased in the past year, and is included in the 2005 *Public Finance Statistics* yearbook.

Public sector operations

The DIPRES reports on the general government, including municipalities and decentralised public institutions, on a regular basis. Municipalities are subject to the same standards of fiscal accounting as the central government. Even though there is room for improvement, the quality and periodicity of information from municipalities has been increasing during the past years. Sub-national levels of government report yearly to the central government, but information is usually less comprehensive than at the national level.²⁴ Financial information for the municipalities is now available for the same year as that of the central government and included in the annual *Public Finance Statistics* yearbook.²⁵ Spending information at this level has also been improved both in its quality and timeliness. The financial activities of municipalities are overseen by the CGR, which prepares quarterly consolidated statements on their budgets, finances, and assets on the basis of monthly reports that the municipalities produce.

The CGR releases information on public financial institutions and the BCC in its *Financial Management Report of the Public Sector*. The government discloses a consolidated balance of state-owned enterprises on a quarterly basis and information on budget execution, quasi-fiscal operations, and contingent liabilities. Reports on the non-financial public sector are published annually. These reports include information on net debt. Following analyst concerns about the lack of information regarding contingent debt taken to countenance public works, the government has started to include in the annual PFR a special annexe with information on concessions of public works.

A commitment should be made to the timely publication of fiscal information.

Chile subscribes to the IMF Special Data Dissemination Standard (SDDS).²⁶ Data are disseminated in millions of Chilean pesos on general government operations. The data cover the budgetary units of central government (which include the Social Security Funds managed by the public sector) and the local government entities.

Starting in 2004, the methodology to report data on government operations has changed in order to observe more closely the guidelines prescribed by GFS 2001. Explanations of these changes are publicly available at the DIPRES website. Monthly data -- compiled only for central government -- do not consider extra-budgetary components, although they are included in quarterly and annual data. Official data adapted to the new methodology is publicly available for the central and the general government operations and the consolidated public enterprises, and includes monthly and quarterly breakdowns for central government data. Treatment of interest payments on inflation-indexed bonds and on debt owed to the central bank differs from the GFS 2001. The ongoing second stage of migrating

fiscal statistics to the new system will include the development of estimates of consumption of fixed capital and fully consistent opening and closing balances.²⁷ The construction of comprehensive balances with information on assets and liabilities of the central government is also part of the migration process under way.

Detailed quarterly data on revenue and expenditure are published within 60 days of the reference quarter and annual financing data is released within three months of the end of the year. The Budget Law requires the release of quarterly information within 45 days of the end of the period, but in practice the time lag has been reduced to 30 days.

Chilean data are generally perceived of good quality, timely and adequate for surveillance purposes. The IMF has commended the authorities for making important strides in bringing the fiscal statistics more closely in line with international standards.²⁸ Even when the DIPRES fulfils the legal requirements for publishing fiscal information, it continues to improve the timely disclosure of information. In the past year, the frequency and amount of publicly available fiscal information has been enhanced.

Debt reporting

Chile releases a comprehensive amount of debt information. Statistics on public debt and financial assets are compiled and reported by the Ministry of Finance on a quarterly basis. Reporting of central government debt follows SDDS requirements, including for various classifications of the debt stock. Transparency used to be undermined by the fact that this information was dispersed throughout diverse agencies. However, the DIPRES attempted to resolve this in October 2002, producing a report that included the consolidated public debt. Following a practice established in 2003, the DIPRES publishes an annual *Statistical Public Debt Report* (in cooperation with the BCC) to provide periodic and consistent debt information on the central government, the central bank, and public enterprises. Reports on central government debt include information on payment schedules, maturities, and lenders. In addition, both the *Public Finance Statistics* yearbook and the *Financial Evaluation of the Public Sector* report include a detailed section on debt and financial assets of the public sector, including data on net and gross debt and on public assets. Information publicly available includes a classification of central government debt, together with a progression of debt stock since 1990. However, data on the stock of military debt associated with the Copper Law continues to be unavailable.

In previous years the lack of information available on the debt of the Ministry of Public Works and the state hospitals was a cause of concern, mainly because operational spending was previously registered as investment. This problem has now been addressed.

Advance release calendars

An advance release calendar that provides one-quarter-ahead notice of the precise release dates is disseminated on the DIPRES website.

3. OPEN BUDGET PREPARATION, EXECUTION AND REPORTING

●●●●● Full compliance

Fiscal policy objectives, macroeconomic framework and risks

Fiscal policy objectives

A statement of fiscal policy objectives is included in the *Public Finance Report*. This publication also includes the government's medium-term fiscal policy objectives and priorities for the following three years; explanation to changes in fiscal rules; and budgetary reallocations for the preceding three years. The PFR is released in October each year and is praised by fiscal policy experts as a very important tool for fiscal reporting.²⁹

The budget preparation process makes a distinction between existing commitments and new policies. Since 2001, a new methodology has distinguished between inertial and 'incremental' outlays. The gap between inertial expenditure and the total expenditure permitted by the structural balance target determines a pool of available funds for which competing proposals can be considered. Proposals have to include a clear presentation of objectives, expected results, coverage, resource requirements, and evaluation indicators.³⁰

Macroeconomic framework

Chile operates medium-term financial plans that include the relevant fiscal year and three years ahead. Income and expenditure forecasts are based on publicly disclosed assumptions on economic growth, inflation, interest and exchange rates, and copper prices. This framework includes a rolling medium-term expenditure exercise based on forecasts by budget item and programme. The projected outcomes are then compared to the structural surplus rule of 1% to identify any sources of fiscal imbalance.

The structural balance rule is not mandated by legislation, but is a policy commitment of the current administration.³¹ The government works in close collaboration with independent expert panels to determine the critical inputs to the estimation of medium-term forecasts of real copper prices; the labour force; capital accumulation; and total factor productivity. Statements identifying panel members and documenting results are publicly available. The use of expert panels in measuring the structural balance is a key component to ensure the transparency and credibility of the fiscal policy rule. Additionally, the government now includes the transfer from CODELCO to the military -- resulting from the *Reserved Law of Copper* -- to calculate the structural balance rule.

According to some commentators, the new government taking office in March next year could revise the fiscal rule, either reducing it to 0.5% of GDP or establishing a structural balance framework. Given the strong fiscal position of the country -- generated by high copper prices -- the relaxation of the rule would not produce an alteration in the country's prudent fiscal management. The final decision is likely to be influenced by the government's willingness to operate within a budget flexibility framework.³² The fiscal responsibility bill submitted by the government to Congress includes the obligation to calculate the structural surplus and the obligation to define the fiscal parameters of the administration within 90 days of taking office. However, the bill does not impose a specific target for future administrations.

Each year, the Ministry of Finance presents the budget proposal for the following period before the Special Budget Commission in Congress. This presentation includes some general remarks regarding macroeconomic forecasts,

which are also publicly available through the PFR.³³ One month before this presentation, the BCC has to submit to Congress a report of advances and changes in inflation targets. The BCC's report also includes a section on macroeconomic forecasts. Forecasts prepared by both institutions are generally homogeneous.

Fiscal risks

The government does not follow a standardised methodology to report fiscal risks. Analyses of fiscal risks are included in the Budget Bill when identified, but they are not presented within a systematic methodology. The 2003 PFR did not include an analysis of fiscal risks. The 2004 PFR included a special chapter on fiscal risks, which provided -- using internationally accepted standards -- a set of quantitative indicators (fiscal position indicators, short-term risk, long-term sustainability, and structural vulnerability) as a means to identify them.

A general analysis of fiscal risks is usually included in the Budget Director's report to Congress at the time of the budget submission. Moreover, the government discloses estimates of contingent liabilities of around 2% GDP with data from a special fund for their provision. Information on contingent liabilities is publicly available, mainly through the annual PFR. Plans are under way to require future budgets to accumulate resources to cover potential contingent liabilities and to include a measure of the structural fiscal position.

Fiscal sustainability

Since 2001, Chile has followed a budgetary process aimed at achieving an annual structural fiscal surplus of 1% GDP.³⁴ The methodology follows IMF and OECD guidelines to determine revenues and expenses should the economy reach its potential output and copper prices remain within historical trends. The 1% structural fiscal surplus methodology, however, lacks a debt ceiling to ensure fiscal sustainability. Moreover, the balance of the Central Bank and public enterprises are excluded from this methodology. Chile has met structural fiscal targets, and the high price of copper helped in the accumulation of last year's fiscal surpluses. Although government officials remain cautious about this year's fiscal surplus, independent experts put this figure above 4% of GDP.

The structural fiscal surplus methodology has increased transparency and accountability by defining a specific medium-term fiscal policy path that removes policy discretion while not suppressing automatic stabilisers. The use of expert panels to determine cyclical adjustments to meet the rule has enhanced transparency and credibility.³⁵ Chilean officials have reinforced the positive impact of the rule with regard to the sustainability of public finances.³⁶ The fiscal rule has proven to be an effective counter-cyclical tool to the economy since its adoption.³⁷ However, according to an OECD document, even when the fiscal surplus rule has strong merit per se, there is still some room for improvement. At present, the structural budget target is measured against actual rather than potential GDP, which would tend to introduce noise into the interpretation of fiscal developments when there are unexpected changes in the business cycle.³⁸

Since 2001 the budget has been prepared and presented in a medium-term framework, with two main elements, namely a target for the structural balance and a medium-term financial projection. Fiscal sustainability is monitored on a regular basis. The structural balance estimate is updated and published twice a year. This analysis is complemented with medium-term financial projections published each October.

Budget presentation

Data reporting

The Budget Bill is available in early October of the previous fiscal year. The document includes a detailed presentation of fiscal targets and policies to be implemented in the following fiscal year. The approved Budget Law

is published with a description of appropriations and the cash plan. Previous years' budgets and execution reports are also publicly available. A Budgetary Report on central government operations is published on a quarterly basis.

The budget is developed according to administrative categories, but also reported broadly on a programme basis. The specification of programme objectives and their link to performance indicators and evaluation procedures is highly developed in the budget presentation. In December 2003, DIPRES published detailed guidelines for conducting the evaluation of government programmes, which were enhanced a year later by a *Technical Notes Report*.³⁹ One of the main objectives in developing these guidelines was the need to unify criteria and define previously unwritten conventions. Implementation of these guidelines is currently under way.

Budget execution and monitoring

Chile has made considerable progress in monitoring budget execution. The DIPRES and the CGR are implementing a *State Information System of Financial Management* (SIGFE) that includes a complete overhaul of methodology followed by government agencies and municipalities. The core objective of this programme is to establish an integrated system of checks and balances within government departments designed to monitor spending according to budgetary allocations, together with addressing some deficiencies in the quality and reliability of budgetary information. Once the system becomes fully operational -- originally expected for 2005, but delayed until early 2006 -- it will allow daily electronic reporting of fiscal disbursements and budget execution, increasing transparency and timeliness in fiscal management and reporting.⁴⁰ In the meantime, provisional measures have been taken to increase the control of spending in line with budgetary commitments. Around 95% of government departments are already engaged in implementing SIGFE -- with modules on budget, programme execution, commitment, accounting, and treasury -- and the DIPRES expects to reach 100% by year-end.⁴¹

The DIPRES regulates budget execution following a monthly programme, with results regularly posted on its website. In addition, consolidated budget execution information is also publicly available at the DIPRES website. Chile has implemented a financial accounting system that requires all government levels and agencies to report their budget execution (including public investment) as well as meeting specific monitoring criteria. The system includes management incentives that allocate an additional 2% (of their corresponding budget) to the best performing units.

The budget is prepared following an increasingly consolidated methodology of budget-performance. Government propositions to distribute public funds take into account programme evaluations, public services performance indicators, and assessments of achievement for management goals in more than 176 public services.

Evaluation of budgetary programmes has been expanded and improved, including the involvement of expert panels, the periodic revision of their recommendations, and the strengthening of human resources expertise within the public sector. Consequently, proposals of improvement are more accurate and consistent than in previous years. The recommendations from the 118 programmes evaluated in the 2000-2005 period have resulted in 24% of these programmes introducing major redesign or institutional changes, while 38% underwent substantial design modifications, and 24% have had to improve their information systems and make minor changes to management processes. About 9% of the programmes evaluated were eliminated in the light of their results or because their objectives no longer responded to new requirements, and 5% have been institutionally reallocated.⁴² Assessments of budgetary programmes are sent to Congress and made publicly available.

The DIPRES is committed to scrutiny and evaluation of government programmes in order to maximise budgetary allocations. The DIPRES prepares detailed assessment of an increasing number of budget programmes and their efficiency and impact in the long, medium and short term. Assessments of 13 government programmes were completed and sent to Congress in 2004, and 14 programmes are currently being evaluated. In addition, the DIPRES has been working with public institutions in charge of the programmes assessed, in order to address the shortcomings

detected. During the past year, availability and systematization of these assessments at the DIPRES website has increased.

Important advances have been made in developing performance indicators, mainly focused on their social and economic impact. Performance indicators, goals, and targets are prepared between the Ministry of Finance and government agencies, and discussed with DIPRES to ensure their consistency with budget appropriations. The number of government agencies working with performance indicators has been increasing in the past year. The 2006 Budget includes 1552 performance indicators for 136 public services (an average of 11.4% indicators per service), up from 275 performance indicators for 72 public services in 2001.

An assessment of the 2004 performance indicators has been released in June this year in the *Financial Evaluation of the Public Sector*. A total of 1590 indicators (representing 94% of indicators used during 2004) have been evaluated, with a rate of adequate fulfilment of 86%. Only 7% of the performance indicators for the 2004 fiscal year achieved a rate of fulfilment below 80%. The annual PFR provides comprehensive information on the performance-budget system in Chile in past years, including an evaluation of performance indicators. The system has been continuously improving since first introduced in 2001, and a comprehensive performance culture is perceived among public institutions.⁴³

The *System of Management Control and Results-based Budgeting* (SCG) -- an ambitious programme to build a logical framework for all public programmes being developed by the DIPRES -- seeks to orient public management towards results and improve the efficiency of public spending. Starting this year, the introduction of interactive electronic resources has helped to increase the coherence of the database. The *Evaluation Programme* (including Programme Evaluation, Impact Evaluation, and Comprehensive Spending Reviews) is one of the six instruments used by SCG⁴⁴ and has recently been praised for its effectiveness by a World Bank Report. The report noticed that positive external conditions -- among which the power of the budget office, good financial management and an increasingly higher degree of professionalism in the country's public officials are worth mentioning -- constitute a key element of the SCG's continuing success. Recommendations made to strengthen the current framework include development of indicators that link the results with superior objectives and the consolidation of instruments to measure the impact of programmes.⁴⁵

The DIPRES -- following a protocol signed with the Congress Special Budget Commission -- is also working on the standardization of the procedures and rules used under the *Management Improvement Programmes* (PMGs) in order to achieve certification under the International Standard Organization (ISO) 9001:2000 regulation.⁴⁶ Explanation of the goals and procedures that are being used to achieve ISO certification for PMGs -- currently formulated by public institutions in collaboration with independent experts -- are publicly available at the DIPRES website.⁴⁷

Accounting basis

The general principles of government accounting are established in the LAFE, which also gives the Comptroller General responsibility for assessing the public sector accounts. Rules of the public sector accounting system are consistent with international standards.

Chile continues making progress towards implementing a fully accrual-based accounting system, as established in the IMF's 2001 GFS Manual. Fiscal policy information is now submitted following the accrual-based methodology. In 2005, public services transactions have started to be recorded under an accrual-based accounting system. In addition, progress has been made in preparing the SGO, with the consumption of fixed capital being the only exception. Consequently, the gross operating balance is calculated as indicated in the 2001 GFS Manual. Authorities are currently working on the criteria to register and value financial and non-financial assets in order to build the opening and closing balance sheet, the statement of other economic flows, and the consumption of fixed capital in the SGO. Although this stage will require coordinating efforts with the CGR -- legally in charge of the

accounting standards in the public sector -- progress is expected in the near future. The transition period is progressing not without some distress, but commentators agree on the positive results achieved, including the conversion of historic information, and monthly and quarterly information release.⁴⁸

The 2005 PFR includes a section on the advances made in establishing the accrual-based accounting system. The second phase of the migration path is now completed and the deadline of 2006 is likely to be met.⁴⁹

Procurement and employment

The constitution and diverse laws regulate procurement as well as appointments and wages of public sector staff. Law No. 18,575 on the General Principles for the Administration of the State establishes general transparency and competitiveness principles for the contracting process. Allegations over obscure government employment and payment practices are not common, and corruption allegations are usually judicially investigated. Procurement Law No. 19,886 was passed in July 2003. This law provides homogeneity to procurement procedures, and establishes an independent tribunal to handle appeals by suppliers. Before this law, regulations could differ from sector to sector and were not fully defined for all areas. The Ministry of Finance has a special website where it publishes tenders and public contracts, together with all relevant legislation and recent news in the public procurement area.⁵⁰ The system of public procurement is increasingly becoming a tool that gives access to state-related business opportunities for both nationals and foreigners. A proposal regarding the possibility of modifying procurement contracts from the original tenders is currently being discussed.

Entry to the civil service is based on competition and merit, with some exceptions made for political appointments. As well as creating a National Civil Service Directorate, the new Civil Service Statute approved in 2003 seeks to modernise public administration and to lay the foundations of a professional civil service.⁵¹ As part of the redesigning of selection and pay policies, the new Statute emphasises promotions on a competitive, merit-determined basis, increases performance-based incentives, introduces new incentives for retirement, and establishes a new system for monitoring the performance of top-level officials. As a result of these changes, the number of political appointees in the public administration is expected to drop from approximately 3,500 to around 400.

Some commentators have pointed to the lack of performance incentives within the civil service as its main problem. In addition, the immobility of the civil service tends to reduce productivity.⁵² Law 19,882 on the new labour treatment and salaries for high public officials -- intended to improve the selection of higher public officials on a merit basis and to strengthen human resources management -- was not unanimously regarded as a useful tool to address Chilean deficits in this area. A Public Administration Personnel Information System (SIAPER) started to be drafted in 2004, aiming at improving human resources allocation within government departments. The system is expected to be completed by the end of this year and could start operating in mid-2006.

Fiscal reporting

The DIPRES reports fiscal activity on an annual and quarterly basis, and publishes its public financial statistics during the first semester of the year. The *Public Finance Report* contains information on DIPRES reports to Congress, including type and periodicity of data submitted.

Information on budgetary execution is publicly available on a monthly basis. Information on revenues and expenditures is updated every three months. In line with the GFS Manual 2001, the budgetary classification has been reformed in the past year in order to include a functional classification of expenditures. The DIPRES website is updated on a regular basis with all the latest reports released by the government. The quality of the DIPRES website has improved in the past year -- within a government strategy to expand information publicly available through the internet.⁵³

Results of major budget programmes and impact evaluations are submitted to Congress annually; although there is an increasing perception that it makes limited use of the evaluations conducted.⁵⁴ The government provides Congress with mid-year reports evaluating the financial conduct of central government. These reports are submitted in July each year and include a complete assessment of the previous fiscal year, and an assessment of the half-year in progress. If necessary, the government might include in these reports amendments to the original projections included in the budget documentation.

Following legal requirements, public institutions have to submit annually to Congress an *Integrated Management Balance Report* (BGI). The purpose of the BGI is to provide information on goals and achievements of public management. Additionally, the BGIs -- which are publicly available at the DIPRES website -- constitute a tool that helps institutional analysis and evaluation. In particular, the DIPRES uses these reports in order to prepare its medium and long-term assessments.⁵⁵

Law 19,875 of May 2003 gives permanent status to the Special Budget Commission, made up of members from both chambers of Congress. In the past, this commission only met on an ad hoc basis to discuss the budget submitted each year. The core objective of the changes introduced is to give Congress more powers to oversee and control budgetary execution during the fiscal year.⁵⁶ Even though the expertise of the Special Budget Commission has been increasing the role of Congress in budgetary monitoring, its capabilities are still underdeveloped.⁵⁷ The Senate has launched a proposal to have staffers in Congress and a plan is currently being drawn up under an agreement with the Inter-American Development Bank. The core objective is to recruit well-trained and well-paid staff (starting with around 5 staffers per party) that could help members of Congress to increase overall technical capacity. The approval of this project will benefit the congressional oversight role in the budgetary process.

In June each year, the DIPRES submits to the Special Budget Commission a *Financial Evaluation of the Public Sector*. The quality of this report has been improving in the past years and includes not only a comprehensive analysis of the previous year's financial management of the public sector, but also a detailed update for projections of the year in progress. In addition, the report incorporates operations conducted under the previous year's budgetary framework, and extra-budgetary operations conducted by central government bodies.⁵⁸ Central government data are provided following the GFS Manual 2001 -- which has helped to improve the quality of information -- and consequently distinguishes between transactions affecting the availability of economic resources and those of a financial nature.

4. ACCOUNTABILITY AND ASSURANCES OF INTEGRITY



Compliance in progress

Chile continues upgrading its fiscal reporting system for government agencies. Once the SIGFE programme becomes fully operational in 2006, it will electronically track real-time disbursements, improving the current paper-based arrangements. The system will also allow elimination of differences in methodology, coverage, and periodicity of information among different government dependencies.

Data quality standards

In general, overall budget results have not differed significantly from the original estimates. Supplementary budgets have not been used since the adoption of the LAFE in 1975. In addition to budgetary data provided by the DIPRES, the CGR prepares a *Financial Management Report of the Public Sector* and an audit report of the Treasury Account. Reports include methodological commentaries that address accounting standards. The DIPRES reconciles the official fiscal statistics it publishes with data horizontally consolidated, published, and audited by the CGR.⁵⁹ A comprehensive series of fiscal statistics for the 1987-2003 period, following the 2001 version of the GFS Manual is publicly available. In addition, the government regularly submits to Congress a progress report on the change of fiscal statistics towards an accrual-based system.

Independent scrutiny of fiscal information

Independent Audit

The Office of the Comptroller General carries out an independent audit on the public sector's fiscal management and budget execution, including sub-national levels of government. The CGR has institutional and administrative autonomy, but it is financially dependent on the Budget Law and subject to the budgeting procedures for the central government. Once appointed by the President with approval of the Senate, the Comptroller may only be removed through congressional action on an accusation based on a constitutional infringement. CGR also verifies the legality of the administration's transactions, inspects the income and investment of treasury and municipality resources, and develops auditing and internal control. Before April 30 each year, the Comptroller has to submit both to Congress and the president the *Financial Management Report of the Public Sector* for the previous year. Annual reports prepared by the CGR are publicly available on its website -- which has been improved in the past year.⁶⁰

The CGR's role has been strengthened in recent years, and today it is perceived as an independent institution, with full institutional and operative capacity.⁶¹ The CGR has the power to pursue the recovery of funds if fiscal mismanagements are found following an audit. However, some commentators suggested that the role of the CGR is in practice more limited, due to the inadequate use of its powers.⁶² In a 2004 OECD report, the case for modernising this office and re-launching it as a modern auditor-general body has been made.⁶³ Moreover, according to a joint report from the World Bank and the Inter-American Development Bank, the CGR should improve its annual financial statements, moving to closer adherence with internationally accounting standards in its reporting and complying with the International Organization of Supreme Audit Institutions principles.⁶⁴

In July this year, the government sent to Congress a bill to improve the internal audit process within government departments and strengthen management procedures. The bill also addresses officials' responsibility over

government contracts and establishes conflict of interest regulations for procurement deals. If approved, the network of public offices in charge of the auditing (*Sistema de Auditoría Interna del Gobierno*) would have permanent staff and autonomy. The auditing task would differ from that conducted by the CGR (*ex-post*), and would be aimed at undertaking preventive measures, based on risk matrices and on the mitigation of risk. The proposal also includes granting more financial flexibility to the CGR.

Some variables used to prepare macroeconomic projections are discussed with representatives of the private sector and the civil society. Independent critiquing of fiscal data has increased, mainly in areas like macroeconomic forecasts and evaluation of public programmes. Independent panels are involved in the calculation of the reference levels used for the structural balance rule, and in the estimation of the long-term reference price of copper.

In March 2004, the DIPRES submitted to the Special Budget Commission in Congress a summary of the conclusions and recommendations made by international organisations on the country's fiscal transparency operations. Conclusions on most recent reports have also been analysed by the DIPRES and submitted to Congress, and government officials have expressed their commitment to address most of the recommendations in the short term.⁶⁵ In addition, during the May 2005 seminar *Public Management Transformation in Chile*, advances achieved in the past years in fiscal transparency practices, together with pending challenges, were discussed.⁶⁶ The bill on fiscal responsibility -- currently being debated in Congress -- includes some of the recommendations made by external evaluations on fiscal transparency practices in the country.

National Statistics Agency

The National Institute of Statistics (INE) is the central government authority in charge of statistics and enjoys prestige and political independence. The INE is currently working with the BCC in a comprehensive programme to further improve the quality of national statistics. Social and economic indicators are publicly available on its website.⁶⁷ Fiscal information and reporting is performed by the DIPRES and controlled by the CGR. The dependence of the DIPRES on the executive does not undermine the reliability of its fiscal information.⁶⁸

INTERVIEWS

Representatives of *Oxford Analytica* interviewed the following individuals during a visit to Chile between 26 and 28 September 2005:

Ministry of Finance

27 September 2005

Mario Marcel Cullell	Director	National Budget Office
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Central Bank of Chile

28 September 2005

Rodrigo Valdes Pulido	General Manager	Department of Economic Research
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ADDITIONAL INTERVIEWS

26 September 2005

Jorge Bustos	Partner	Ernst & Young Chile
Leonardo Suarez	Chief Economist	Larrain Vial Consulting
Diego Grunwald	Economist	Larrain Vial Consulting
Diego Figueroa Martinez	Economist	Larrain Vial Consulting

27 September 2005

Salvador Seda	International Relations Director	Superintendence of Securities and Insurance
Christian Howard	Studies Division	Superintendence of Securities and Insurance
Gustavo Arriagada	Superintendent	Superintendence of Banks & Financial Institutions
Fernando Valdes Ossa	Correspondent	Superintendence of Banks & Financial Institutions
Juan Villarzú	Executive President	Copper National Corporation (CODELCO)

28 September 2005

Axel Buchheister Rosas	Legislative Programme Director	Freedom and Development Institute
Felipe Morandé	Independent Consultant	

NOTES

¹ In August 2005, Congress reformed the constitution left in place by General Augusto Pinochet. In particular, the reform has abolished appointed Senate seats -- normally occupied by members of the military -- and now allows the president to dismiss military commanders. The reform is widely perceived as a final stage in the transition from dictatorship to democracy. Constitution of Chile at: www.bcn.cl/pags/legislacion/leyes/constitucion_politica.htm

Organic Constitutional Law 18,575 of the General Principles for the Administration of the State (LOCBGAE) of 1986 at:

www.bcn.cl/portada.html

Organic Decree Law 1,263 of the Financial Management of the State (LAFE) at:

www.bcn.cl/portada.html

² Chile's global approach to decentralisation and sub-national development is centred on the premise that they are an integral part of overall public policy.

³ The National Budget Office (DIPRES), legally established within the Ministry of Finance, has its own website at:

www.dipres.cl

⁴ *Corporación Nacional del Cobre* (CODELCO) was established by Law Decree 1,350 of 1976 available at:

www.bcn.cl/portada.html. See CODELCO at: www.codelco.cl

⁵ Interviews in Chile, 26-28 September 2005.

⁶ 'Chile: Reports on the Observance of Standards and Codes – Fiscal Transparency Module – Update', IMF, July 2005, available at: www.imf.org, and interviews in Chile, 26-28 September 2005.

⁷ 'Budgetary Reallocations in Chile' (*Reasignaciones Presupuestarias en Chile*), DIPRES, February 2004, available at: www.dipres.cl/fr_publicaciones.html

⁸ Superintendence of Banks and Financial Institutions (SBIF) at www.sbif.cl

⁹ General Law of Banks at: www.sbif.cl

¹⁰ 'Economic Survey – Chile 2003', OECD, December 2003, and interviews in Chile, 26-28 September 2005.

¹¹ Chile Enterprise System (SEP) at: www.comitesep.cl

¹² Interviews in Chile, 26-28 September 2005.

¹³ The issue became prominent when CODELCO reached an agreement with China's Minmetals in June involving a 15-year supply contract, part of which Minmetals would pay in advance as well as obtaining the right to a stake in a new mine to be developed by CODELCO. Discussions centred on the copper price established in the deal and its impact on cash flow from CODELCO to the government.

¹⁴ The Capital Markets II (MK2) Project was originally prepared to improve the bankruptcy proceedings and corporate governance environment, together with securities and capital markets regulations. The introduction of public enterprises governance in the MK2 draft law was directly influenced by the allegations of in CODELCO at a politically sensitive time, with presidential elections scheduled for December 2005. Due to pressures to address the issue individually, the public enterprises governance section has now been taken out from MK2 and is being discussed separately.

¹⁵ Proposals being discussed include a nine-member board for public enterprises; five appointed by the government and four by the President of the Republic out of a list proposed by the National Civil Service Directorate.

¹⁶ The government began publishing this report in 2002 but until this law was passed, there was no legal obligation to do so.

¹⁷ Interviews in Chile, 26-28 September 2005.

¹⁸ '2005 Public Finance Report' (*Informe de Finanzas Públicas*), September 2005, available at: www.dipres.cl

¹⁹ 'Public Finance Statistics', July 2005, available at www.dipres.cl/estadisticas/E_F_PUBLICAS_2005.html

²⁰ This year, a fourth account was created -- as well as the three others for each of the three branches of the armed forces -- for income above the minimum, to be used for joint Army-Navy-Air Force initiatives. Under an agreement with the armed forces, the funds in this account are to be spent only up to the amount corresponding to the ten-year average copper price used in formulating the budget (which is determined by a committee of independent experts) and the rest is to be saved. This account is administered by the armed forces, but spending has to be authorised by the Ministry of Finance. This means that total defence spending can be kept at its present level of 1.4% of GDP.

²¹ The armed forces will be able to use resources from this stabilisation fund for future acquisitions when low copper prices reduce the transfer. Additionally, the government and the armed forces have agreed that part of this amount will be used to repay debt on past acquisitions, rather than for new purchases. According to the government, this would reduce interest payments by 50 million dollars annually.

- ²² 'Chile: Reports on the Observance of Standards and Codes – Fiscal Transparency Module', IMF, August 2003, available at: www.imf.org
- ²³ Interviews in Chile, 26-28 September 2005.
- ²⁴ As part of a broader initiative, the government is working closely with municipalities in order to strengthen their technological resources and capabilities, a move that could build up reporting procedures.
- ²⁵ However, information on some local corporations (*corporaciones*) -- through which some municipalities channel education and health spending -- is not disclosed in a timely fashion. Where they exist, these corporations are an important part of a municipality's spending, but not all municipalities have them.
- ²⁶ IMF Special Dissemination Standard (SDDS) - Chile, at: <http://dsbb.imf.org/Applications/web/sddsnsdppage/>
- ²⁷ 'Chile: Reports on the Observance of Standards and Codes – Fiscal Transparency Module – Update', IMF, July 2005, available at: www.imf.org
- ²⁸ 'IMF Concludes Article IV Consultation with Chile', IMF Public Information Notice 04/83, August 2004, available at: www.imf.org
- ²⁹ Interviews in Chile, 26-28 September 2005.
- ³⁰ 'Chile: Reports on the Observance of Standards and Codes – Fiscal Transparency Module', IMF, August 2003.
- ³¹ When economic growth was weak, there was scepticism as to whether the government would adhere to its structural surplus rule in an upswing. Ironically, higher economic growth has now created political pressure for a relaxation of the rule.
- ³² Interviews in Chile, 26-28 September 2005.
- ³³ In addition, the annual *Financial Evaluation of the Public Sector* includes mid-year adjustments to the macroeconomic assumptions which help to correct estimates provided in the annual budget.
- ³⁴ The decision to target a 1% of GDP surplus was taken in order to offset the perennial 1% of GDP deficit at the Central Bank. When the two are consolidated, the public sector has an approximately zero balance. Those who are in favour of not institutionalising the structural balance rule argue that once the BCC is recapitalised, it would be necessary to modify the target.
- ³⁵ 'Chile: Institutions and Policies Underpinning Stability and Growth', IMF, August 2004, available at www.imf.org
- ³⁶ 'Sustainability and Fiscal Rule: Analysis and Indicators for Chile' (*Sostenibilidad y Regla Fiscal: Análisis e Indicadores para Chile*), DIPRES, December 2003, available at: www.dipres.cl/fr_publicaciones.html
- ³⁷ 'IMF Executive Board Concludes 2005 Article IV Consultation with Chile', IMF Public Information Notice 05/104, August 2005, available at: www.imf.org
- ³⁸ 'Economic Survey – Chile 2003', OECD, December 2003.
- ³⁹ Available at: www.dipres.cl/publicaciones/control_gestion.asp
- ⁴⁰ Chapter VII of the '2005 Public Finance Report' (*Informe de Finanzas Públicas*), September 2005, available at: www.dipres.cl, includes a detailed progress report on SIGFE, including the operational management of the system. During 2006, SIGFE will introduce aggregate and consolidated functions in order to provide more accurate financial information when adopting efficiency decisions for public resources.
- ⁴¹ Interviews in Chile, 26-28 September 2005.
- ⁴² '2005 Public Finance Report' available at: www.dipres.cl
- ⁴³ Interviews in Chile, 26-28 September 2005.
- ⁴⁴ The remaining five instruments are: Strategic Definitions; Management Improvement Programmes; Performance Indicators; Comprehensive Management Reports; and Competitive Fund.
- ⁴⁵ 'Chile – Study of Evaluation Program', Document prepared as part of the Bank's Advisory Services for Chile's Program for Management Control and Budget by Results, The World Bank, April 2005.
- ⁴⁶ The ISO 9001:2000 is an internationally accepted regulation that includes minimum legal provisions for public and private management systems to be certified.
- ⁴⁷ For a comprehensive explanation of the ongoing procedures, see 'Mecanismo de Certificación Externa de Sistemas de Gestión de los PMG', DIPRES, August 2005. This report, together with supplementary information on PMGs and reference guidelines to achieve ISO certification are available at www.dipres.cl/fr_control.html
- ⁴⁸ Interviews in Chile, 26-28 September 2005.
- ⁴⁹ Interviews in Chile, 26-28 September 2005.
- ⁵⁰ Public Procurement Law and System of Public Procurement, available at: www.chilecompras.cl
- ⁵¹ An advisory four-member board has been appointed within the Directorate, charged with seeking and selecting personnel, and suggesting remuneration. It is, in principle, a guarantee of transparency in hiring and appointing on merit (rather than political loyalty) and it is slowly setting new standards for selecting public officials.
- ⁵² Interviews in Chile, 26-28 September 2005.

⁵³ The Digital Agenda (AD) is the outcome of an endeavour that began in April 2003 when the Digital Action Group was established. It is presided over by the Governmental Coordinator of Information and Communications Technologies and comprises government institutions, business organizations, academia, and other Government agencies. This effort generated a wide-ranging public/private agreement regarding a countrywide strategy that will be implemented up until the Bicentennial celebration in 2010, and a 2004–2006 Action Plan that includes 34 initiatives. The AD objective is to contribute to Chile's development by using information and communications technologies to increase competitiveness and improve equal opportunities, individual liberties, and public sector efficiency and transparency. Information on the AD initiative is publicly available at: www.agendadigital.cl

⁵⁴ Interviews in Chile, 26-28 September 2005.

⁵⁵ A list of institutions conducting BGI is available at: www.dipres.cl/control_gestion/bgi/listado_servicios_BGI.html

⁵⁶ The Special Budget Commission also has the power to require budgetary documentation from the government at any given moment during the fiscal year.

⁵⁷ Interviews in Chile, 26-28 September 2005.

⁵⁸ The latest edition of this report '2004 Financial Evaluation of the Public Sector and 2005 Projections Update' (*Evaluación de la Gestión Financiera del Sector Público en 2004 y Actualización de Proyecciones para 2005*), June 2005, is available at: www.dipres.cl/fr_publicaciones.html

⁵⁹ 'Chile: Reports on the Observance of Standards and Codes – Fiscal Transparency Module', IMF, August 2003.

⁶⁰ Office of the Comptroller General (CGR), at: www.contraloria.cl

⁶¹ The most recent reform to the Comptroller's Organic Law authorises the CGR to perform evaluations on state agencies' internal auditing systems and their monitoring capacities over budget execution.

⁶² Interviews in Chile, 26-28 September 2005.

⁶³ 'Budgeting in Chile', OECD, May 14, 2004.

⁶⁴ 'Republic of Chile. Country Financial Accountability Assessment', The World Bank & Inter-American Development Bank, 2004, p. xiv.

⁶⁵ Interviews in Chile, 26-28 September 2005.

⁶⁶ Additional information on the content of this seminar, including topics discussed and working documents, are available at: www.smgp.cl

⁶⁷ National Institute of Statistics, available at: www.ine.cl

⁶⁸ Interviews in Chile, 26-28 September 2005.